



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN No. 1540 (1962)

February 6, 1987

SUBJECT: Processing Chapter 11, 12, and 13
Bankruptcies (Farmer Programs)

TO: All State Directors, State Directors-at-Large,
Farmer Programs Chiefs, District Directors, and
County Supervisors, FmHA

PURPOSE/INTENDED OUTCOME

The purpose of this Administrative Notice (AN) is to provide guidance in the handling of certain bankruptcy actions and procedures for processing those actions which involve the partial release of Farmers Home Administration (FmHA) debt.

COMPARISON WITH PREVIOUS AN

There are no current AN's on this subject. Previous AN's have long expired.

IMPLEMENTATION RESPONSIBILITIES

A new reorganization chapter has been added to the Bankruptcy Code by recently enacted Public Law 99-554 (October 27, 1986). Designated Chapter 12, it is intended to provide an alternative to reorganization under Chapters 11 and 13. This chapter is limited to family farmers and is intended to allow reorganization procedures to be less complicated and more expedient. Previous to this, most farm business operators were forced into complicated Chapter 11 and 13 bankruptcies.

The FmHA is already starting to receive notices of Chapter 12 bankruptcy actions. Chapter 12 bankruptcy actions can be anticipated in addition to the present Chapter 11 actions already in progress. Many of these actions involve reorganization plans that will require the FmHA indebtedness to be reduced to the security value as established by the Court. A "cramdown" of the FmHA debt will occur in these situations, reducing the FmHA debt to the value of the security. If the borrower makes the payments as required by the reorganization plan, the borrower will be released from liability on the unsecured portion of the debt upon completion of the plan.

EXPIRATION DATE: January 31, 1988

FILING INSTRUCTION: Proceeding
FmHA Instruction 1962-A



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Secretary of Agriculture, Washington, D.C. 20250

A previous AN advised that when these cramdown plans are approved by the Court and the FmHA must adjust its accounts, the plan be sent with a memorandum to the Finance Office. The Finance Office has not established procedures for processing these actions and has not adjusted the accounts.

We are in the process of establishing instructions for reconciling FmHA accounts to reorganization type bankruptcies. Until these instructions are promulgated to the field, the same actions as called for in the present FmHA Instruction 1962-A, Section 1962.47 will be in effect.

Upon advice from the County Supervisor that a bankruptcy petition has been filed, a Form FmHA 1951-6, "Borrower Account Description Flag," will be processed with the Finance Office in accordance with Section 1962.47(a). The Finance Office will flag the account and will take no further action until instructions are issued. Dismissed cases, completed Chapter 7 cases and those cases where the borrower(s) reaffirm the FmHA debts currently represent no processing problem with the Finance Office and can be handled as usual.

Questions on the above may be communicated through/by State Offices to the National Office, Assistant Administrator Farmer Programs on FTS/COM (202)447-4671.



VANCE L. CLARK
Administrator